small insured institutions in Risk Category I (excluding new institutions) with the highest estimated downgrade probabilities, computed using values of the risk measures as of June 30, 2008. The maximum downgrade probability cutoff value is 0.1506.

IV. Derivation of Uniform Amount and Pricing Multipliers

The uniform amount and pricing multipliers used to compute the annual base assessment rate in basis points, P_{iT}, for any such institution i at a given time T will be determined from the Statistical Model, the minimum and maximum downgrade probability cutoff values, and minimum and maximum initial base assessment rates in Risk Category I as follows:

Equation 4

$P_{iT} = \alpha_0 + \alpha_1 * d_{iT}$ subject to $Min \leq P_{iT} \leq Min + 4$

where α_0 and α_1 are a constant term and a scale factor used to convert d_{iT} (the estimated downgrade probability for institution i at a given time T from the Statistical Model) to an assessment rate, respectively, and *Min* is the minimum initial base assessment rate expressed in basis points. (P_{iT} is expressed as an annual rate, but the actual rate applied in any quarter will be $P_{iT}/4$.) The maximum initial base assessment rate is 4 basis points above the minimum (*Min* + 4)

Solving equation 4 for minimum and maximum initial base assessment rates simultaneously,

$Min = \alpha_0 + \alpha_1 * 0.0182$ and $Min + 4 = \alpha_0 + \alpha_1 * 0.1506$

where 0.0182 is the minimum downgrade probability cutoff value and 0.1506 is the maximum downgrade probability cutoff value, results in values for the constant amount, α_0 and the scale factor, α_1:

Equation 5

$$\alpha_0 = Min - \frac{4 * 0.0182}{(0.1506 - 0.0182)} = Min - 0.550$$

and *Equation 6*

$$\alpha_1 = \frac{4}{(0.1506 - 0.0182)} = 30.211$$

Substituting equations 3, 5 and 6 into equation 4 produces an annual initial base assessment rate for institution i at time T, P_{iT}, in terms of the uniform amount, the pricing multipliers and the ratios and weighted average CAMELS component rating referred to in 12 CFR 327.9(d)(2)(i):

Equation 7

P_{iT} = [(Min − 0.550) + 30.211* β_0] + 30.211 * [β_1 (Tier 1 Leverage $Ratio_T$)] + 30.211 * [β_2 (Loans past due 30 to 89 days $ratio_T$)] + 30.211 * [β_3 (Nonperforming asset $ratio_T$)] + 30.211 * [β_4 (Net loan charge-off $ratio_T$)] + 30.211 * [β_5 (Net income before taxes $ratio_T$)] + 30.211 * [β_6 (Adjusted brokered deposit $ratio_T$)] + 30.211 * [β_7 (Weighted average CAMELS component $rating_T$)]

again subject to Min ≤ P_{iT} ≤ Min + 4

where (Min − 0.550) + 30.211 * β_0 equals the uniform amount, 30.211 * β_j is a pricing multiplier for the associated risk measure j, and T is the date of the report of condition corresponding to the end of the quarter for which the assessment rate is computed.

V. Updating the Statistical Model, Uniform Amount, and Pricing Multipliers

The initial Statistical Model is estimated using year-end financial ratios and the weighted average of the ''C,'' ''A,'' ''M,'' ''E'' and ''L'' component ratings over the 1988 to 2006 period and downgrade data from the 1989 to 2007 period. The FDIC may, from time to time, but no more frequently than annually, re-estimate the Statistical Model with updated data and publish a new formula for determining initial base assessment rates—equation 7—based on updated uniform amounts and pricing multipliers. However, the minimum and maximum downgrade probability cutoff values will not change without additional notice-and-comment rulemaking. The period covered by the analysis will be lengthened by one year each year; however, from time to time, the FDIC may drop some earlier years from its analysis.

[74 FR 9557, Mar. 4, 2009]

Appendix B to Subpart A of Part 327

Numerical Conversion of Long-Term Debt Issuer Ratings

Current long-term debt issuer rating	Converted value
Standard & Poor's:	
AAA	1.00

NUMERICAL CONVERSION OF LONG-TERM DEBT ISSUER RATINGS—Continued

Current long-term debt issuer rating	Converted value
AA+	1.05
AA	1.15
AA−	1.30
A+	1.50
A	1.80
A−	2.20
BBB+	2.70
BBB or worse	3.00
Moody's:	
Aaa	1.00
Aa1	1.05
Aa2	1.15
Aa3	1.30
A1	1.50
A2	1.80
A3	2.20

NUMERICAL CONVERSION OF LONG-TERM DEBT ISSUER RATINGS—Continued

Current long-term debt issuer rating	Converted value
Baa1	2.70
Baa2 or worse	3.00
Fitch's:	
AAA	1.00
AA+	1.05
AA	1.15
AA−	1.30
A+	1.50
A	1.80
A−	2.20
BBB+	2.70
BBB or worse	3.00

[74 FR 9559, Mar. 4, 2009]

APPENDIX C TO SUBPART A OF PART 327

ADDITIONAL RISK CONSIDERATIONS FOR LARGE RISK CATEGORY I INSTITUTIONS

Information source	Examples of associated risk indicators or information
Financial Performance and Condition Information.	*Capital Measures (Level and Trend)* • Regulatory capital ratios. • Capital composition. • Dividend payout ratios. • Internal capital growth rates relative to asset growth. *Profitability Measures (Level and Trend)* • Return on assets and return on risk-adjusted assets. • Net interest margins, funding costs and volumes, earning asset yields and volumes. • Noninterest revenue sources. • Operating expenses. • Loan loss provisions relative to problem loans. • Historical volatility of various earnings sources. *Asset Quality Measures (Level and Trend)* • Loan and securities portfolio composition and volume of higher risk lending activities (e.g., sub-prime lending). • Loan performance measures (past due, nonaccrual, classified and criticized, and re-negotiated loans) and portfolio characteristics such as internal loan rating and credit score distributions, internal estimates of default, internal estimates of loss given default, and internal estimates of exposures in the event of default. • Loan loss reserve trends. • Loan growth and underwriting trends. • Off-balance sheet credit exposure measures (unfunded loan commitments, securitization activities, counterparty derivatives exposures) and hedging activities. *Liquidity and Funding Measures (Level and Trend)* • Composition of deposit and non-deposit funding sources. • Liquid resources relative to short-term obligations, undisbursed credit lines, and contingent liabilities. *Interest Rate Risk and Market Risk (Level and Trend)* • Maturity and repricing information on assets and liabilities, interest rate risk analyses. • Trading book composition and Value-at-Risk information.
Market Information	• Subordinated debt spreads. • Credit default swap spreads. • Parent's debt issuer ratings and equity price volatility. • Market-based measures of default probabilities. • Rating agency watch lists. • Market analyst reports.
Stress Considerations	*Ability to Withstand Stress Conditions* • Internal analyses of portfolio composition and risk concentrations, and vulnerabilities to changing economic and financial conditions. • Stress scenario development and analyses. • Results of stress tests or scenario analyses that show the degree of vulnerability to adverse economic, industry, market, and liquidity events. Examples include: i. an evaluation of credit portfolio performance under varying stress scenarios. ii. an evaluation of non-credit business performance under varying stress scenarios.